

Approved For Release 2007/07/12 : CIA-RDP84T00109R000100050005-1

Approved For Release 2007/07/12 : CIA-RDP84T00109R00010005000			
DATE OF DOC 9/19/82		DATE REC'D 9/13/82	
DATE OUT		SUSPENSE DATE	
TO FROM SUBJ.		Cabinet Members B. Dunlop CCEA - Sept 14	
COURIER NO.		ANSWERED	
		NO REPLY	

White House

CONTROL NO.

101-7353-82

CROSS REFERENCE OR  
POINT OF FILING

ROUTING

DATE  
SENT

101/1001

Approved For Release 2007/07/12 : CIA-RDP84T00109R000100050005-1

# EXECUTIVE SECRETARIAT

## Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	NIO/EON		✓		
21					
22					
		SUSPENSE _____ Date			

Remarks:

Executive Secretary  
9/18/82  
Date

THE WHITE HOUSE  
WASHINGTON

Executive Registry  
82-5902

# CABINET AFFAIRS STAFFING MEMORANDUM

DDI- 7353-82

DATE: 9-10-82 NUMBER: 077464CA DUE BY:

SUBJECT: Cabinet Council on Economic Affairs - September 14, 1982

8:45 a.m. in the Roosevelt Room

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Wheeler	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>			
	<input type="checkbox"/>	<input type="checkbox"/>			

REMARKS: The CCEA will meet Tuesday, September 14, 1982 at 8:45 a.m. in the Roosevelt Room.

The agenda and background papers are attached.

RETURN TO:

☐ Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs  
456-7823

☒ Becky Norton Dunlop  
Director, Office of  
Cabinet Affairs  
456-7800



THE WHITE HOUSE

WASHINGTON

September 10, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*  
SUBJECT: Agenda and Papers for the September 14 Meeting

The agenda and paper for the September 14 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is a brief report on the employment and training legislation. The Senate-House Conference Committee last met on Thursday, September 9 reaching no resolution on the major differences between the Senate and House bills. The conference is scheduled to resume on Wednesday, September 15. No paper will be circulated for this agenda item in advance of the meeting.

The second agenda item is a discussion of savings statistics and the savings rate. At its July 22 meeting, the Cabinet Council requested that papers be prepared describing and analyzing the recent revisions by the Department of Commerce in the savings statistics and assessing the relevance of the recent revisions in light of previous administration statements on the savings rate. A paper, prepared by the Department of Commerce, on this subject, is attached.

The third agenda item is a review of interest rate targeting legislation. Legislation has been introduced in both the House (H.R. 6967) and the Senate (S. 2807) which would mandate that the Federal Reserve establish annual targets for interest rates. The legislation would also change greatly the formulation and conduct of monetary policy. A paper, prepared by the Department of the Treasury, describing and analyzing this legislation and recommending an Administration position on this legislation will be circulated on Monday.

Attachments

*WLS*

THE WHITE HOUSE  
WASHINGTON

THE CABINET COUNCIL ON ECONOMIC AFFAIRS

September 14, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Employment and Training Legislation (CM#167)
2. Savings Statistics and Savings Rate (CM#289)
3. Interest Rate Targeting Legislation (CM#292)



**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Under Secretary for Economic Affairs**  
Washington, D.C. 20230

September 10, 1982

MEMORANDUM FOR Cabinet Council on Economic Affairs

FROM: Robert G. Dederick  
Under Secretary for *RGD*  
Economic Affairs

SUBJECT: Savings Data Paper

Attached is the paper on the July Revision of Savings Data for discussion at the September 14, CCEA meeting.

September 10, 1982

## RECENT REVISIONS IN SAVING

## Summary

Prominent in the July revisions of national income and product statistic is an upward shift of saving and investment. Beginning with \$5 billion in 1977, the revision in private saving grows to \$22 billion, or 5 percent, in 1981. Almost all of the move is in personal saving rather than in undistributed profits or capital consumption (depreciation). For 1981, the personal saving rate--personal saving as a percent of personal income after taxes--has been raised from 5.3 percent to 6.4 percent.

The revisions have had only minor effects on recent trends (Chart 1). Total private saving now is about the same percentage of GNP as the 1971-75 average, instead of a lower percentage. The revised personal saving rate is still down substantially from its level in 1971-75, though not down so much as the pre-revision estimates.

Moreover, in spite of the changes, the saving rate in the United States ranks low compared with those in other major industrial countries (Table 1). The revisions have not altered the desirability of increasing the fraction of current output that is set aside for saving and investment.

The recent revisions

There are two widely-used measures of private saving in the United States. The more comprehensive is gross private saving as a percent of GNP, which includes personal saving, undistributed profits, and capital consumption (depreciation). The narrower is personal saving as a percent of disposable (that is, after-tax) personal income. Neither rate includes the saving (surplus) or dissaving (deficit) of Federal, State, and local governments. Both rates were revised upward since 1977 in the July 1982 revision of the national income and product accounts, as follows:

	<u>Gross private saving as a percentage of GNP</u>		<u>Personal saving as a percentage of disposable personal income</u>	
	<u>unrevised</u>	<u>revised</u>	<u>unrevised</u>	<u>revised</u>
1977.....	16.8	17.0	5.6	5.9
1978.....	16.5	17.3	5.2	6.0
1979.....	16.5	16.8	5.2	5.9
1980.....	16.5	16.6	5.6	5.8
1981.....	16.4	17.2	5.3	6.4
1982: 1st quarter.....	16.3	17.4	5.4	6.6
2nd quarter.....	--	--	-	6.6

Almost all of the revision in gross private saving is attributable to the personal component rather than profits or depreciation. The main factors underlying the personal saving revision are (a) an upward change in the interest component of personal income and (b) a downward change, in 1980 and 1981, in personal expenditures for housing services.

As Chart 1 shows, the July revisions have had only a small effect on the trend of saving rates in recent years. The more comprehensive rate, gross private saving as a percent of GNP, now shows no trend since 1971-75 instead of a slight downward trend. It remains near the levels of the mid-1960's and slightly above those of the early 1960's. The revised personal saving rate



continues to show a substantial downward shift from the levels of 1971-75, bringing the rate back to the low levels of the early 1960's.

The gap between the two saving rates, both before and after revision, has widened in the last decade. The personal saving rate has fallen below its level in 1971-75, but the gross private saving rate has not. The reason is that depreciation has been growing faster than GNP or personal income. This faster growth is due, in part, to a shift within the stock of corporate business capital from structures, which depreciate slowly, to equipment, which depreciates more rapidly. A growing fraction of gross saving is required to offset depreciation, leaving a declining fraction available for net expansion of capital stock.

Although saving has been revised up, total output and its growth have not been revised appreciably. Investment, like saving, was raised; but other components of total output, especially consumption of nondurable goods and services, were lowered. The record of economic growth in recent years, therefore, remains unsatisfactory.

#### International comparisons

Compared with other major industrial countries, saving rates in the United States are still low, despite the upward revisions. Gross private saving rates are compared across countries for five years in the top portion of Table 1. In all five years, the saving rate for the United States is the lowest of all of the countries shown. For four out of five years, the saving rate for Japan is the highest.

The lower portion of the table shows personal saving rates for different countries in two recent years. These rates also suggest that U.S. saving is low compared with other countries.

These saving rates have been carefully adjusted by the IMF to make them comparable from country to country. The gross private saving rate for the U.S. given in the table is higher than the U.S. rate used elsewhere in this report, largely because saving by state and local governments is included in the IMF definitions, but not in the U.S. private saving rate.

Some economists have argued that low saving rates in the U.S. and the U.K. are due at least in part to heavy taxation of the return on saving. Others have cited differences in social security systems and in the age composition of the population. There is no generally accepted explanation of the differences in saving rates among major industrial countries.

#### Reliability of saving estimates

Gross private saving is the best measure we have of the portion of GNP which the business and personal sectors make available for domestic or foreign investment. Saving estimates are based on careful tabulation of data from different sources, and they are systematically revised to take account of the latest information. New Census surveys and new IRS tabulations were important sources of the 1982 saving revisions.

There is no indication that some other methodology or procedure would produce better estimates. For personal saving, however, there is another methodology that has produced different--not necessarily better--estimates. This is the methodology followed in the flow-of-funds accounts compiled by the Federal Reserve Board staff. The flow-of-funds personal saving figures are based on changes in outstanding assets and liabilities, and on the estimated proportion of these changes held by persons rather than by business or government. The national income and product estimates are derived by subtracting personal outlays from personal disposable income. If our statistical system were perfect, the two approaches would give the same estimates of personal saving; each dollar

of unspent income must go into some asset or be used to reduce some liability.

In fact, the personal saving rate based on flow-of-funds saving is consistently above the personal saving rate in the national income and product accounts (NIPA). Comparison of the two (Chart 2) shows that the flow-of-funds personal saving rate has been above the NIPA rate in every year since 1960 and that the difference between the two was especially large in 1980 and 1981, even after the recent NIPA revisions. In contrast to the NIPA rate, the flow-of-funds rate in 1980 and 1981 is about the same as the 1971-75 average and slightly above the rates of the early 1960's.

There has been some speculation that the source of the difference between the two rates is the "underground economy"--that is, income concealed from the IRS either because it is illegal (e.g., drug sales, prostitution) or because of attempts to avoid taxes ("off-the-books" jobs, etc.). The idea is that the missing income is not included when saving is estimated by the NIPA methodology (income minus outlays) and, hence, biases the saving rate downward.

This explanation probably is incorrect. It is true that there is a substantial amount of income unreported to the IRS. The producers of the NIPAs make a determined, but probably not completely successful, effort to include legal-source unreported income; they do not attempt to include illegal-source income. Thus, there is income--especially income from illegal activities--missing from the NIPAs. The problem with the argument is not that some income is unrepresented, but rather that unrepresented economic activity is just as likely to be missing from the outlay side as it is from the income side. Outlays for illegal drugs are not represented any more than are the incomes of drug dealers. Even for legal-source activities, "off-the-books" work probably is as likely to be missing from the outlay side as from the income side.

Thus, it is not clear in which direction the underground economy biases

saving estimates. At this time, we simply do not know the reasons for the difference between the flow-of-funds and the national income and product estimates of personal saving.

#### Implications of the revisions

The recent revisions have only slightly altered saving trends in the United States. The gross private saving rate now appears to have been roughly stable since 1971-75 and is slightly above the rates 20 years ago. The personal saving rate is still low relative to its levels in 1971-75 but is about equal to the rates in the early 1960's. Revised estimates of saving and investment as fractions of GNP still compare poorly with saving and investment in other major industrial countries.

The revisions have not altered the desirability of diverting more of our resources from current consumption to investment in order to increase the amount of capital per worker. The merits of this strategy for improving output and productivity growth depend on how its costs and benefits compare to those of other strategies--for example, to encouraging research and development or to increasing the proportion of total investment spent on business plant and equipment. The merits of the strategy do not depend on whether saving has been falling, staying constant, or rising. Revisions in the historical record of saving in recent years may change how we explain the slowdown in growth, but they have little bearing on what we should do about it.

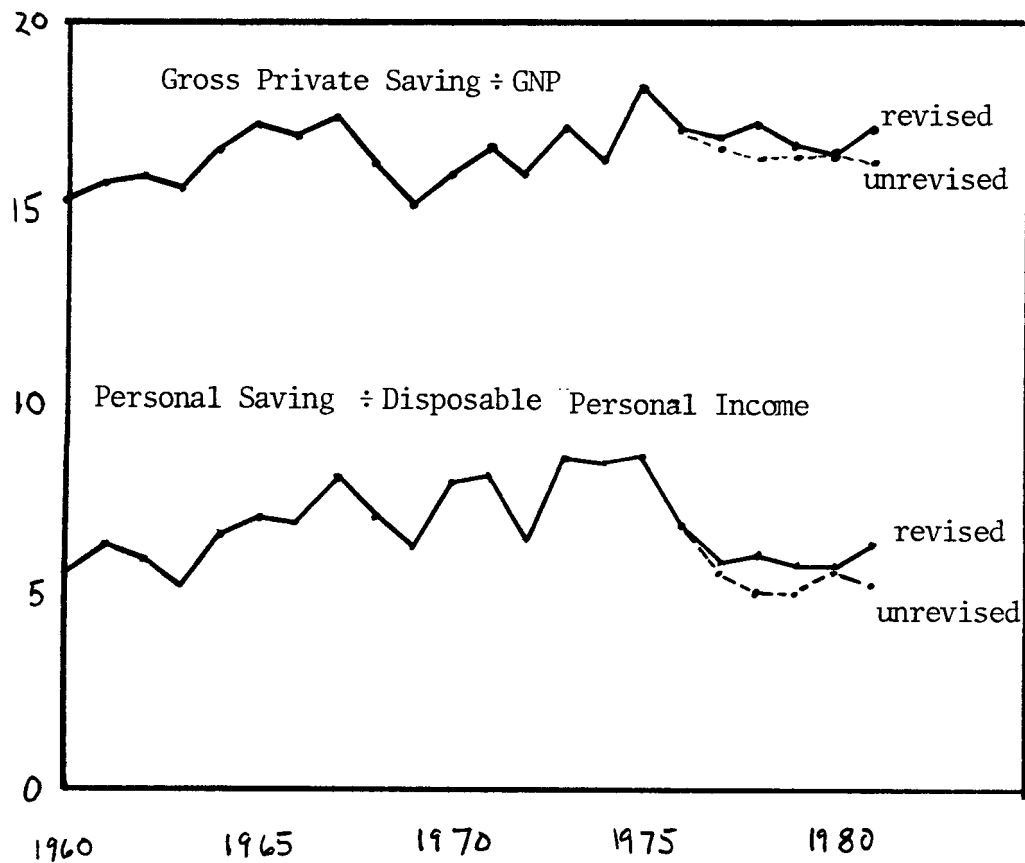
Table 1.--International Comparisons of Saving Rates

A. <u>Gross Private Saving as a Percentage of GNP</u>					
	1972	1975	1978	1980	1981
Canada.....	18.7	19.7	22.1	23.3	22.0
France.....	21.7	22.5	20.8	19.0	19.2
Germany (Federal Republic).....	27.8	23.6	25.6	22.0	21.8
Italy.....	26.5	27.2	32.3	30.1	28.2
Japan.....	32.4	31.5	31.9	31.1	32.3
United Kingdom.....	17.5	20.2	20.8	20.4	19.6
United States <sup>1/</sup> .....	17.4	19.3	19.2	18.1	18.9
B. <u>Personal Saving as a Percentage of Disposable Personal Income</u>					
	1978	1981			
Canada.....	10.8	11.6			
France.....	17.8	15.0			
Germany (Federal Republic).....	13.7	15.2			
Italy.....	24.0	20.7			
Japan.....	20.6	18.0			
United Kingdom.....	13.0	13.2			
United States <sup>1/</sup> .....	6.0	6.4			

1. United States ratios for 1978 and subsequent years take account of the July 1982 revisions and therefore differ from those in IMF tables.

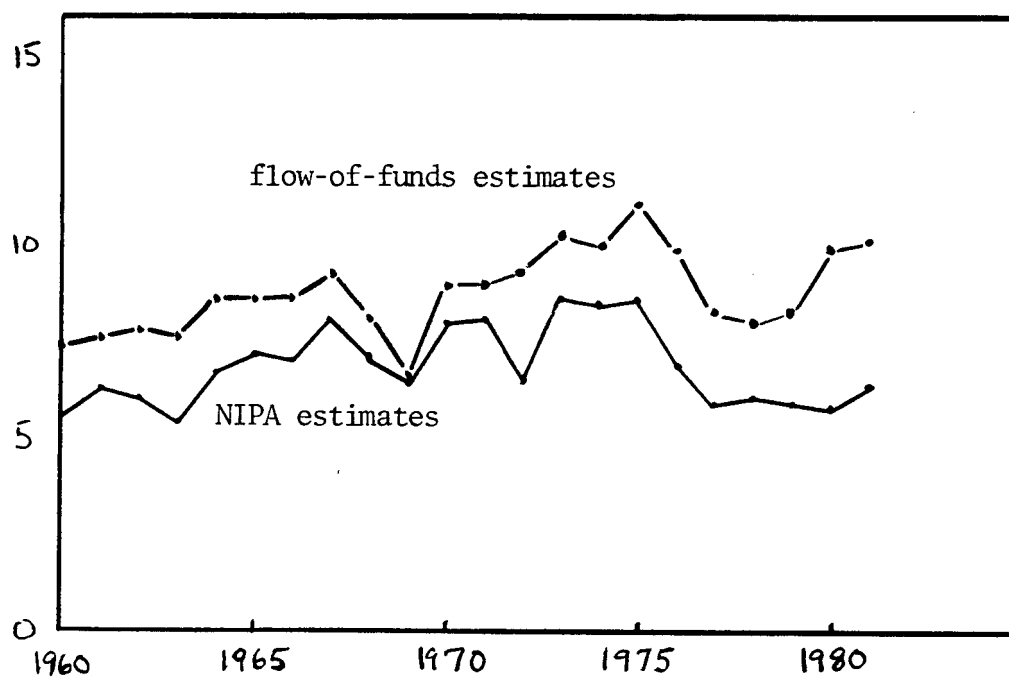
Source: IMF, World Economic Outlook, 1982. Tables 55-64 and unpublished tables.

Chart 1: U.S. Saving Rates, Unrevised  
and Revised, 1960-1981



Source: Department of Commerce (BEA)

Chart 2: Personal saving rates, flow-of-funds  
and national income and product (NIPA) estimates



Source: Federal Reserve Board; Department of Commerce (BEA)